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Executive Secretary
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82-13141

CABINET AFFAIRS STAFFING MEMORANDUM

DATE: Nov. 18, 1982 NUMBER: 098383SC DUE BY: c.o.b. Monday,
November 29

SUBJECT: U.S. Trade Strategy Issue Papers

	ACTION	FYI		ACTION	FYI
ALL CABINET MEMBERS	<input type="checkbox"/>	<input type="checkbox"/>	Baker	<input type="checkbox"/>	<input type="checkbox"/>
Vice President	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Deaver	<input type="checkbox"/>	<input type="checkbox"/>
State	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Clark	<input type="checkbox"/>	<input type="checkbox"/>
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REMARKS:

Please provide any comments/recommendations by Monday, November 29. These papers will be discussed in an upcoming Cabinet Council meeting.

Thanks.

RETURN TO:

☒ Craig L. Fuller
Assistant to the President
for Cabinet Affairs
456-2823

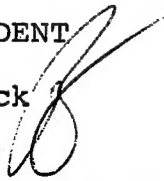
☐ Becky Norton Dunlop
Director, Office of
Cabinet Affairs
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THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON
20506

November 10, 1982

MEMORANDUM FOR THE PRESIDENT

FROM: William E. Brock 

On the basis of our discussion of the U.S. Trade Strategy paper in the Cabinet Council on Commerce and Trade on November 8, my staff has prepared a set of decision memoranda for the key issues. I submit them to you for decision.

Attachment

ADMINISTRATION LEGISLATIVE TRADE PACKAGE

ISSUE

The Administration must be prepared to present to the Congress a legislative package of trade bills early in 1983. Several Administration authorities and statutes are due to expire in the coming two years, and thus extension of such measures must be sought. In addition, it is expected that Congress will initiate many new proposals on which the Administration will be required to react.

ANALYSIS/BACKGROUND

The new Congress can be expected to be less supportive of free trade policies and more aggressive in its demand for "fair and equitable treatment" by our trading partners.

In addition to anticipated opposition to much of the necessary renewal legislation, Congress is expected to take up such issues as increased export financing, a new trade adjustment and retraining program, local content requirements for selected industries, and stronger reciprocity trade measures designed to restrict access to the U.S. market. In addition, attempts will be made to limit the President's discretion under existing import relief mechanisms so as to make the process for relief more automatic.

In an effort to retain our traditional constituency of free trade supporters so that the Administration will be successful in accomplishing the legislative trade objectives in the 98th session of Congress, it is suggested that a legislative package be prepared in coordination with Congressional leaders.

Such a package would be a joint Administration-Congressional initiative and would be comprised of new proposals as well as "must" renewal legislation.

Specific items to be included in the legislative package are:

1. Improved, more aggressive export financing plan.
(Treasury/EXIM/USTR)
2. Reform of the Foreign Corrupt Practices Act. (USTR)
3. Reform of U.S. anti-trust laws for trade purposes. (Justice)
4. New research and development (R&D) investment incentives for targeted industries in lieu of trade protections.
(Commerce/USTR)
5. New trade adjustment assistance and retraining initiative.
(Labor/USTR)

6. Reform of U.S. import relief laws and procedures, including section 201, 301, 406, dumping and countervailing duty. (USTR/Commerce)
7. New Presidential negotiating authority, including section 124 - like tariff authority (tariff to tariff), a services and investment mandate (non-tariff), and possible broad "North-South" authority (tariff and non-tariff). (USTR)

In addition to the above list of new proposals, the following renewal or extension legislation must be considered during the new 98th Congress:

1. Legislation providing for a GATT legal substitute for Domestic International Sales Corporation, DISC. (Treasury/USTR)
2. Amendments to the Export Administration Act. (Commerce)
3. Renewal of the Export-Import Bank Charter. (Treasury/EXIM)
4. Legislation to implement the new Harmonized tariff classification. (USTR)
5. Renewal of the Generalized System of Preferences. (USTR)

Members of Congress have already begun to develop ideas on many of these issues, and therefore consultations with Congress are expected to produce an outline of the necessary legislation. Further, the Administration will seek the assistance of Congress in drafting the specific legislative language at the appropriate time.

In this manner, both the Administration and Congressional leaders will share "ownership" of the legislative trade package and broad-based, bipartisan support will be easier to gain.

RECOMMENDATION

That the Office of the United States Trade Representative consult with the Congress in drafting a preliminary outline for a legislative trade package, and report the results to the Trade Policy Committee and the Cabinet Council on Commerce and Trade by December 10.

APPROVE _____ DISAPPROVE _____

EXPORT FINANCINGISSUE

U.S. companies have lost major export sales as a result of government subsidized financing abroad. The business community has lost confidence in the Administration's willingness to assure that U.S. exporters are not disadvantaged by foreign credit subsidies. The Administration needs an export financing policy and Ex-Im budget that will restore the confidence of the business community.

ANALYSIS/BACKGROUND

Many of our major trading partners provide government-subsidized credits to their exporters. Such subsidies have put U.S. exporters at a serious disadvantage during the past year when interest rates soared. While the return of interest rates to more normal levels has reduced the dimensions of the financing problem, Administration export financing policies remain an issue of major concern to the business community.

Competition among governments on export credit subsidies is kept within bounds by the OECD Export Credit Arrangement. During the past year the United States has been able to achieve some major improvements in that agreement and there is a consensus within the Government on further negotiating efforts to strengthen the agreement. While the agreement reduces the scope for foreign government export credit subsidies, it does not eliminate subsidized credits.

Ex-Im loans and guarantees have traditionally served to offset government export credit programs of other countries as well as to assure the availability of financing for capital projects too large for private sector funding. If interest rates do not rise and if progress continues in improving the OECD Export Credit Agreement, a modest expansion of the Ex-Im Bank's resources will be adequate.

The business community is extremely concerned that if interest rates should rise, other governments will again provide liberal export credit subsidies which will not be offset by the U.S. Government. This apprehension has contributed to a significant erosion of public support for our open trading system, and has led some firms to source major contracts through their overseas subsidiaries where competitive financing appears more likely.

In order to address this concern, the Administration needs to provide assurances that we will not allow our exporters to be disadvantaged by foreign government export credit distortions. This could be done by providing assurances that Ex-Im will provide comparable interest rate subsidies from its reserves or by seeking a larger budget authorization for the direct credit program, if the potential for foreign credit subsidies reoccurs.

To minimize the budgetary outlay expense of a competitive financing program, Ex-Im Bank could increasingly shift from

-2-

its present role of providing direct credits to providing guarantees and insurance of private credits and direct subsidies, where that is necessary to offset the export credit subsidies of foreign governments. As U.S. interest rates fall, use of financial guarantees will enable many exporters to secure long-term financing from PEFCO at rates competitive with the financing packages of our major trading partners. Financial guarantees will also be required as commercial banks reach credit limits for specific countries and/or feel unable to assume additional risks associated with overseas lending. Credit subsidies, provided through either the direct credit program or by discounting commercial or PEFCO lending rates, could be used on a more limited basis to match foreign export credit subsidies.

To boost confidence that resource management of Ex-Im Bank programs is firm, Ex-Im Bank could be provided with more specific criteria as to how its program resources -- interest support and guarantee -- should be used. These criteria could be developed by an interagency committee.

RECOMMENDATION

To restore private sector confidence in the Administration's willingness to neutralize foreign export credit subsidies, the following approach is recommended:

Statement of Policy. The Administration should firmly and publicly state that while we will continue efforts to reduce and eliminate export credit subsidies through reform of the OECD Export Credit Arrangement, the Ex-Im will be given adequate resources and authority to neutralize the distortions created by foreign credit subsidies that disadvantage U.S. exporters.

APPROVE _____ DISAPPROVE _____

Ex-Im Budget.

Option 1: The FY 1984 Budget for Ex-Im would include \$12 billion in guarantee and insurance authority and \$3.8 billion in direct credit authority. Ex-Im Bank would be authorized to use its reserves to provide an interest subsidy on commercial loans where that is necessary to offset foreign credit subsidies.

APPROVE _____ DISAPPROVE _____

Option 2: The FY 1984 Budget for Ex-Im would include \$12 billion in guarantee and insurance authority and \$3.8 billion in direct credit authority. The Ex-Im would be authorized to provide direct credits above the \$3.8 billion level if that becomes necessary to offset foreign credit subsidies.

APPROVE _____ DISAPPROVE _____

AGRICULTURAL EXPORT SUBSIDIESISSUE

Foreign agricultural export subsidies are reducing U.S. markets abroad. This has become a major political issue because bountiful crops worldwide have depressed U.S. farm income and increased the competition for foreign sales. The United States needs a strategy that will depend on agricultural trade interests and obtain support of the farm community for U.S. trade policy.

ANALYSIS/BACKGROUND

The European Community (EC) has become the world's second largest exporter of agricultural products with sales outside the Community valued at \$22 billion in 1980. Because EC domestic prices in virtually every commodity area are higher than world prices, these sales are possible only with the assistance of direct export subsidies.

High domestic support prices protected by variable import tariffs effectively isolate EC domestic production from import competition. There are almost no controls on domestic production and, as a consequence, the EC is more than self-sufficient in virtually every commodity area except fruits and vegetables. Production in excess of domestic needs is exported with the assistance of subsidies in order to protect domestic prices. There is no limitation on the amount of monies which can be spent to subsidize exports. In 1982, \$6 billion, or 50 percent of the EC's budget for agricultural market support, will be spent on direct agricultural export subsidies. Fifty percent of these monies are used to subsidize exports of dairy products alone.

Aside from the \$500 million in blended credit which you recently announced to assist U.S. agricultural exports, the United States has no direct export subsidy programs. U.S. agricultural exports valued at \$40.5 billion this year will be slightly below last year's sales. This will be the first time in 13 years that the value of U.S. agricultural exports has not shown a year-to-year increase.

The United States has sought to discipline the EC's use of export subsidies by challenging the practice on a product-specific basis in the General Agreement on Tariffs and Trade (GATT); i.e., wheat flour, sugar, poultry and pasta. The GATT process has been particularly slow, and there is no guarantee that the cases will be adjudicated in favor of the United States. This is because the GATT rules permit export subsidies on primary products so long as the subsidies do not result in the country obtaining more than an equitable share of world trade, displacement in individual markets, or material price undercutting.

At the November 29 meeting of the GATT Ministerial, the United States will be seeking a commitment on the part of the Ministers to a standstill on the introduction of new subsidies and a

phase-out of current subsidies on primary products. While a number of countries are prepared to support such a proposal, including Australia, New Zealand, Canada and key developing countries, the EC has made it clear that it will agree only to study the definitions underlying the current GATT rules on agricultural export subsidies. While we agree that a discussion along the lines proposed by the EC could lead to some improvements in the discipline on agricultural subsidies over the long run, we have no indication that the EC has developed the political will to reach concrete agreements on the issues involved any time soon. Given the EC's intransigence in the area of agricultural export subsidies, we feel that the only way the EC can be led to alter its practices is for us to engage in an active export subsidy program aimed at specific markets and commodities so as to affect EC exports.

RECOMMENDATION

1. The United States should create a war chest for the purpose of meeting EC subsidized competition. The initial funding should come out of the \$75 million that is left out of the \$175 that was appropriated in the last session. In addition, if necessary for negotiating purposes, USDA should be authorized to supplement these funds from their monies available in other USDA programs, up to an amount of \$900 million. USDA and USTR would develop a mechanism to see that the funds are used in the best manner so as to obtain the desired objective.

APPROVE _____ DISAPPROVE _____

2. Sell U.S. dairy products stocks on the international market. USTR should be authorized to consult with Australia and New Zealand about appropriate compensation since unsubsidized dairy sales from these countries are likely to be displaced as a result of U.S. action. Some of the U.S. sales may eventually end up in the Soviet Union; this could be minimized if sales to the Soviet Union were prohibited when the U.S. tenders were announced.

APPROVE _____ DISAPPROVE _____

U.S. GOVERNMENT IMPOSED DISINCENTIVES TO EXPORTS

ISSUE

The business community remains concerned about a number of export disincentives. Useful progress has been made during the past two years, but the business community remains concerned about certain aspects of the Foreign Corrupt Practices Act, the Export Administration Act, the antiboycott laws and various government regulations.

ANALYSIS/BACKGROUND

The Administration decided in February 1980, to reduce or eliminate a number of export disincentives. Priority was to be given to passage of legislation to (a) liberalize the method of taxing foreign earned income by Americans working abroad, (b) facilitate the formation and operation of export trading companies, and (c) eliminate uncertainties over the meaning and application of the Foreign Corrupt Practices Act (FCPA).

These objectives have now been achieved, except for legislation to amend the FCPA, which has not yet cleared the House. The progress that has been made has been viewed positively by the business community. The following issues remain to be addressed:

1. The Foreign Corrupt Practices Act - Legislation to clarify ambiguities in the Act has passed the Senate but not the House.
2. The Export Administration Act (EAA) - Scheduled for renewal in 1983, under this Act, export controls may be imposed for reasons of national security, foreign policy and inadequate supply. In many cases such sanctions have not been effective in changing the policies of those governments they are aimed at and have resulted in lost U.S. export sales. A number of U.S. industries believe that unilateral U.S. imposition of export controls has seriously weakened their ability to compete. These industries accept the need for national security controls, although they want them held to the necessary minimum and imposed on a multilateral basis. With regard to foreign policy considerations, the black community supports controls vis-a-vis South Africa, and the Jewish community supports controls vis-a-vis the more extreme Arab States on terrorist grounds; the business community generally opposes such controls.

Developing an Administration position on renewal of the EAA will require reconciliation of often-conflicting trade policy, national security and foreign policy objectives.

3. Antiboycott laws - Two separate statutes (the Export Administration Act and the Tax Reform Act) administered by two different agencies (Commerce and Treasury) govern U.S. antiboycott behavior. Behavior permissible under one act may be restricted by the other, and vice versa. The business community strongly feels these differences should be reconciled. This issue will be very difficult to deal with, however, since there is no indication that the Jewish community in the United States would support legislative changes. Because the Export Administration Act is the most recent statutory provision and because it faces renewal next year, consideration of the EAA provides an excellent opportunity for removing conflicts among these provisions.

4. Deregulation - Numerous government regulations impede exports. USTR and OMB have recently agreed to work together to try to reduce these regulatory burdens on a case-by-case basis. To date, USTR has recommended elimination of regulations that (1) impose an artificially low ceiling on agent commissions for commercial sales under DOD's Foreign Military Sales program, and (2) requires extraterritorial environmental reviews by Government agencies for export transactions. USTR and OMB should conduct a broader interagency examination for other subjects that might be candidates for deregulation.

RECOMMENDATION

A. The TPC should initiate a work program to liberalize the Foreign Corrupt Practices Act, antiboycott laws, and burdensome regulations; the trade advisory committees (and the Jewish community on antiboycott) should be consulted in developing the Administration's position.

APPROVE _____ DISAPPROVE _____

B. Because the Export Administration Act is principally administered by the Department of Commerce, that agency should lead an interagency review to develop the Administration's position on renewal of the EAA early next year. The trade advisory committees should be extensively consulted as this position is developed.

APPROVE _____ DISAPPROVE _____

DISCISSUE

The Administration must propose an amendment to DISC legislation designed to address the finding of a GATT panel that the existing DISC is inconsistent with U.S. obligations under the GATT. The primary issue is whether an amended DISC program should provide the same level of benefits as the current DISC program. The business community views a reduction in the level of DISC benefits as an increase in business taxes.

ANALYSIS/BACKGROUND

The DISC issue remains a serious irritant to U.S.-EC trade relations. The DISC dispute has become an obstacle to progress in the GATT Council on other issues of major concern to the United States. In order to remove this obstacle, the United States announced at the October 1 GATT Council meeting that it would propose to the next Congress an amendment to DISC designed to make it consistent with the GATT.

The Congress is anxious to hear the Administration's views on a DISC alternative. Hearings will be scheduled on DISC in the Senate and possibly the House when Congress returns on November 29. The Administration will be invited to testify and must develop a position on DISC before Congress reconvenes. The Treasury Department now is preparing the analysis upon which an Administration position will be based.

The business community is willing to accept changes in the DISC that would make it clearly GATT consistent. There is strong opposition in the business community and in the Congress to any change in DISC that would increase taxation of export income because U.S. exporters already carry a greater tax burden than do their foreign competitors.

Making a proposal that is acceptable to the business community is critical because DISC has become a highly visible element of the Administration's export policy. Almost 8,000 U.S. companies currently have DISCs. The Administration was severely criticized by business interests last year for reducing DISC benefits by 15 percent in the Tax Equity and Fiscal Responsibility Act of 1982. There would be strong opposition in the business community and the Congress to a new DISC program that would increase the taxation of export income.

RECOMMENDATION

That the Treasury Department complete its analysis of DISC alternatives by November 29 and the Administration adopt a DISC proposal which does not increase the taxation of export income.

APPROVE _____ DISAPPROVE _____

ANTITRUSTISSUE

How can the Administration clarify and modify its antitrust policies in a manner which will promote the competitiveness of U.S. goods and services in world markets?

BACKGROUND

U.S. antitrust policies increasingly need to take account of international competition. The Justice Department has recognized this need, and has increasingly modified its policies in light of international competitive factors. As can be expected during a period of change, however, there is a great deal of ambiguity which bothers the business community. Of particular concern to businessmen are the following:

U.S. law is ambiguous on the extent to which companies can form arrangements to share their research and development efforts. In some sectors, particularly high technology, the lack of cooperative research and development has put the United States at a competitive disadvantage internationally. In contrast to U.S. policy, the Japanese Government encourages intercompany sharing of research and development. There is a widely held view that this has facilitated their worldwide success in the semiconductor market at the expense of U.S. manufactures.

Another issue concerns the definition of a competitive market. While interpretations of our antitrust laws by the Justice Department have been moving towards a broader global market concept, a clear statement on this issue would be helpful in guiding public policy and achieving a national consensus.

Another issue concerns the degree to which U.S. foreign subsidiaries may conform to local rules of competition without being subject to liability under U.S. antitrust laws.

RECOMMENDATION

An Interagency Task Force, chaired by the Department of Justice, should be established to formulate a clear statement of U.S. antitrust policy with respect to cooperation on research and development, applicability of U.S. antitrust standards to U.S. subsidiaries abroad and the definition of a competitive market.

APPROVE _____ DISAPPROVE _____

INDUSTRIAL ADJUSTMENTISSUE

America's basic manufacturing industries are experiencing high and rising unemployment (in some cases approaching 50 percent) and major financial losses which could result in significant bankruptcies. At the same time, imports are increasing in many of these same industries; pressures for import protection are growing and may get out of control. To resist growing protectionism, we must develop an easily identifiable, trade-related adjustment program that helps industries and workers adjust to changing economic circumstances.

ANALYSIS/BACKGROUND

Plant closings and layoffs in America's basic industries have increased dramatically over the past year. This is the third year of recession in these industries. Forecasts for 1983 and 1984 do not suggest substantial improvement. While investment and employment in these industries have fallen precipitously, imports of the products they manufacture have continued to increase. As a result, we can expect growing demands for import protection in coming years that will prove increasingly difficult to resist.

U.S. law requires that government provide import relief where industries are injured. Our only real alternative in cases of import-impacted injury is to provide adjustment assistance. Yet, the existing trade adjustment programs for firms and workers have lost their creditability and, as a result, their funding. We must design and adequately fund viable trade adjustment programs that encourage firms to adjust positively and workers to seek alternative jobs, and, if necessary, retraining.

At the level of the firm, the government needs to help encourage private investment, innovation and adaption without telling industry what to do. Industrial planning should be left to the private sector. One critical need is for federal R&D spending to be redirected or for new funds to be provided for commercial R&D relevant to trade-impacted firms and industries. (Today, most federal R&D funding goes into noncommercial research. U.S. funding of commercial research lags far behind Japan and other developed countries.)

Funds should be committed in ways relevant to the nature of the adjustment problems facing particular sectors. Waste could be minimized by requiring matched private sector funds. In some sectors, current lines of production could be made more competitive through additional investment in industrial innovation. In such cases, funds would be used

to support research and development to improve competitiveness. In other cases, where an old line of production is not economical, R&D funds may be used to promote innovation in new lines of activity.

For workers, we need a well-conceived, adequately-funded and effectively-managed program which focuses on adjustment rather than income maintenance. The program should

- emphasize job search before training,
- improve job search through job clubs, etc.,
- reduce training costs with vouchers,
- grant blanket worker TAA certifications when providing import protection to spur desired adjustment, and
- shorten the certification process.

Estimates are that 60 percent of all structurally displaced workers are trade-impacted. An effective, trade-related job search and training program will help these workers adjust to structural changes and, at the same time, will be of significant benefit in resisting protectionism. Although requests for job search and training assistance were low in the past, changes in the program and the growth of permanently displaced workers should increase demand for the program.

RECOMMENDATION

Action Item 1: We should develop a program which will provide trade-impacted firms with matching federal funds for R&D and market research. Such a program should be based on adjustment plans prepared by impacted industries. \$1 billion should be budgeted for this purpose.

APPROVE _____ DISAPPROVE _____

Action Item 2: We should develop a worker adjustment program that will provide training and job search services for trade-impacted, structurally displaced workers. \$170 million should be budgeted for this purpose.

APPROVE _____ DISAPPROVE _____

IMPORT RELIEFISSUE

While the Administration has been opposed to protectionist actions, it recognizes that there are occasions when temporary trade relief is desirable and has granted relief in such cases. Trade relief may be ineffective in some instances, however, because non-trade factors may pose more fundamental problems to the industry, and no provisions are made for dealing with such problems on a comprehensive basis. Moreover, current procedures, which require approximately eight months before relief is granted, may not adequately deal with problems created by import surges.

ANALYSIS/BACKGROUND

Section 201/203 of the Trade Act of 1974 provides that the President may grant an industry import relief, not to exceed five years, with a possible three year extension, if he determines that such relief would be in the national economic interest, and if the International Trade Commission (ITC) has found that imports are a substantial cause of serious injury. A principal rationale for granting such import relief is that temporary protection gives industries time to make an orderly adjustment to import competition.

Administration of the import relief statute has been criticized on two major grounds: (1) Because the decision whether or not to grant relief is made without considering other causes for the industry's problems, protection frequently fails to result in increased industry competitiveness, and (2) the decision whether or not to grant import relief takes about eight months, during which time the industry may be vulnerable to sizeable import surges of foreign goods.

With regard to the adjustment issue, industries injured by import competition typically face a broad range of problems that affect their basic competitiveness, such as excessive federal regulations or wages significantly out of line with productivity factors. Historically, in granting temporary import protection, the Executive Branch has not considered this broad range of problems. As a result, industries are frequently still unable to compete even after protection of three to eight years.

With relatively little difficulty, the government could give greater emphasis to adjustment factors in considering petitions for import relief. The ITC could request more information on broader competitive factors in accepting the initial petitions for relief and could analyze these factors as part of its report to the President. The Executive Branch could examine whether or not government programs, particularly

of a regulatory nature, are also causing injury to the industry, and whether or not there are other measures that might be taken to promote adjustment. Additionally, the Executive Branch could require the private sector to consider how it proposes to use relief to become competitive. Finally, if an industry takes measures to lessen its competitive posture while it is being given import protection (such as granting clearly excessive wage increases), the President could immediately terminate relief.

A staff level subcommittee of the Trade Policy Committee is reviewing broader consideration of adjustment issues. Its work, to be completed by early December, could be incorporated in a broader trade package.

Interagency work on the need for "fast-track" relief in emergency situations has not yet been launched, although the issue was raised in the context of the Caribbean Basin Initiative. As a general rule, the deliberative process set out by Section 201, which requires eight months from the time of petitioning for relief to the Presidential decision, is desirable. Because import relief represents a tax on consumers, all affected parties need the opportunity to make their views known. Further, these deliberative procedures ensure that protection will be granted only in those limited cases where it is appropriate.

In some situations, however, more immediate relief is needed, since an industry may suffer severe injury while the deliberative process is being carried out. (The GATT currently provides for such a "fast-track," although U.S. law does not.) For example, the growing season for some agricultural products would be over before the eight month process would have elapsed.

Our institutional process for considering import relief helps to assure that such relief is granted only where it is truly needed. In order to assure that a new "fast-track" process did not become merely an easier way of obtaining import relief, strict criteria would have to be established for determining whether an import-surge situation exists.

RECOMMENDATION

The TPC should be asked to develop by January 1 an approach for dealing with import surges.

APPROVE _____ DISAPPROVE _____

The TPC should be asked to develop by January 1 proposals for a more comprehensive approach to adjustment problems faced by industries injured by import competition.

APPROVE _____ DISAPPROVE _____

REVIEW OF LONG-TERM TRADE ISSUESISSUE

The increased importance of trade to the United States has increased the domestic economic impact of the industrial and regulatory policies of other governments. The world economy will go through major structural adjustments in the years ahead that will intensify the domestic debate over the appropriate future course of trade policy. The United States needs to develop a new public consensus on how it can best deal with the changing realities of the world market place.

ANALYSIS/BACKGROUND

The United States finds its competitive position in world trade increasingly challenged. Partly this is due to the growing competitiveness of other countries. Partly it is due to the more active and aggressive support of other governments for their own industries.

The United States, as other developed countries, is also experiencing difficult structural adjustment problems which are putting severe pressure on many basic industries.

There is developing in the United States a greater sense of vulnerability to the outside world, and this has led to a growing public debate over U.S. trade policy. Traditional supporters of an open trade policy are questioning the wisdom of that policy, and this now threatens the bipartisan nature of U.S. trade policy.

There is a need to forge a new domestic consensus, taking account of the new realities of the world economic environment.

One approach to facilitate this objective would be to appoint a public commission that could examine the requirements of an effective trade policy to meet the challenges of the world market during the next decade. The membership of such a commission would be drawn from industry, agriculture, labor, the Congress, the academic community and the Administration.

RECOMMENDATION

Bill Brock should be authorized to put together a public commission, and a small support staff, with the mandate of reviewing the position of the United States in the world economy and evaluating the implications for U.S. trade policy. The commission would be asked to report its conclusions within a year of its establishment. A budget of \$500,000 would be made available for this purpose.

APPROVE _____ DISAPPROVE _____